



Reflection Resources Ltd.
Annual Report 1984

Corporate Profile

Reflection Resources Ltd. is a wholly-owned Canadian company, based in Calgary, engaged in exploration and development of oil and natural gas reserves in the western Canadian sedimentary basin.

The Company has lands in Alberta, Saskatchewan and Manitoba. Reflection is active in exploring for oil in the Frys area of southeastern Saskatchewan and has oil production from wells in the Windy Tindastoll area of central Alberta.

The Company was established in 1983 and has been listed on the Vancouver Stock Exchange and the Alberta Stock Exchange since June 1984 under the symbol REF. There are 3,300,000 shares outstanding.

Corporate Philosophy

Reflection applies the skill and judgement of a team of experienced professionals to high quality oil and gas prospects in selected areas of western Canada.

The Company's objective is to grow, as quickly as is practical and prudent, into one of Canada's best managed independent oil and gas enterprises.

To do this Reflection works co-operatively with other companies in its exploration and development activities. This has the combined benefit of reducing risks while drawing on the strengths that other participants bring to a venture.

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President's Report to Shareholders

During Reflection's first full year of operations a number of significant changes occurred at the political level in Canada. Some of these changes have the potential for major, positive impact on the oil and gas industry.

The most significant change was the election of a new Progressive Conservative government in Ottawa. With this change comes a review and remodelling of the Foreign Investment Review Agency (FIRA) and the prospect of changes to the National Energy Program (NEP) including the Petroleum and Gas Revenue Tax (PGRT) and the Petroleum Incentive Program (PIP). In addition, the new government has committed itself to a review of taxation policy.

Currently, Reflection does benefit from some provisions of the National Energy Program. The Company's 100 percent Canadian Ownership Rating (COR) is of benefit as it ensures that Reflection receives the maximum incentive rate when exploring for oil and gas on both Canada Lands and Provincial Lands.

1984 Priorities

During 1984 your Company placed highest priority on getting a solid and promising exploration program in place. To provide the necessary financial resources, an equity issue was successfully completed and the company's shares were subsequently listed, as of June 7, 1984, on the Vancouver Stock Exchange (VSE) and the Alberta Stock Exchange (ASE).

Financial

Reflection ended its first full year with an operating loss of \$120,528. Working capital at year end totalled \$243,214, an increase of \$132,875 over the beginning of the period.

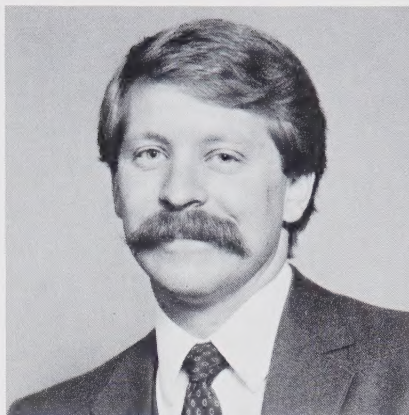
Exploration & Production

During the first half of the year, your Company participated in the drilling of one development well in the Frys area and was successful in farming out the drilling of a second well, at no cost to the Company, in the South Antler Area. Unfortunately, this second well was a dry hole.

In October 1984, your Company was working on the farming out of two more wells in the Antler Area, to be drilled at no cost to the Company, with drilling to be completed by early 1985.

Royalty revenue is now at approximately \$1,500 per month. This is an area in which we expect to show dramatic improvement over the next twelve months. Our primary strategy in this regard will be the drilling of wells inside the Frys Area on lowest risk locations.

The value of Reflection's petroleum and natural gas properties has increased from \$587,000 as of October



Guy R. Anderson

31, 1983 to \$731,523 as of October 31, 1984. This 25 percent increase in value was documented in an evaluation of your company's properties undertaken by Citidal Engineering at year end.

Outlook

Over the next year, it is your Company's strategy to promote the drilling of wells on Company lands, at no cost to Reflection. Since drilling on these Reflection lands will be done without drawing on the Company's working capital, it will be possible for Reflection to invest in the drilling of two additional wells outside the Frys-Antler area. This will allow Reflection to diversify its exploration program into other promising areas.

Until cash flow increases, your Company will be reducing overhead as much as possible. These measures will ensure that your Company has the resources to carry out its planned programs during 1985. Drilling capital for 1985 year end may be put in place by using a major bank for bridge financing. Reflection is currently reviewing producing oil and gas properties for possible purchase by the Company. A purchase is expected, provided acceptable financing can be arranged.

Your Company's management believes that a turn around for the oil and gas sector is in the air. We are poised at the beginning of an exciting new era which the Directors are confident will be profitable for all the survivors of the National Energy Program.

We wish to express our thanks to our shareholders, employees, friends and associates for their support and encouragement in the establishment of Reflection Resources Ltd.

On behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read 'Guy R. Anderson'.

Guy R. Anderson
President & Chief Executive Officer
January 8, 1985

Operations Review

During the year considerable effort was concentrated on the evaluation of Reflection's extensive land holdings in the Frys-Antler area of southeastern Saskatchewan.

Exploration

Exploration attention was focused on the Company's lands in the Antler prospect which extends from the well established Frys oil field. These lands are extremely well located for major Mississippian, Tilston and Lodgepole subcrop oil accumulation.

Twenty-two miles of recent 600 percent seismic, centered over the Antler area, was purchased and evaluated. This provided the encouragement to participate in an additional 5.5 miles of new seismic during the year. On the basis of this data, Reflection increased the Company's land position in the area from 4,160 gross acres (2,680 net) to 4,880 gross acres (3,013 net).

Four farmout blocks of Reflection lands, in the Antler area, have been offered to potential farm-in companies. Negotiations to drill three of these blocks have been completed and the first well has been drilled. This well,

Harbour et al Antler 12-4-7-31 W1, was unfortunately a dry hole. These farmout prospects are being drilled at no cost to Reflection.

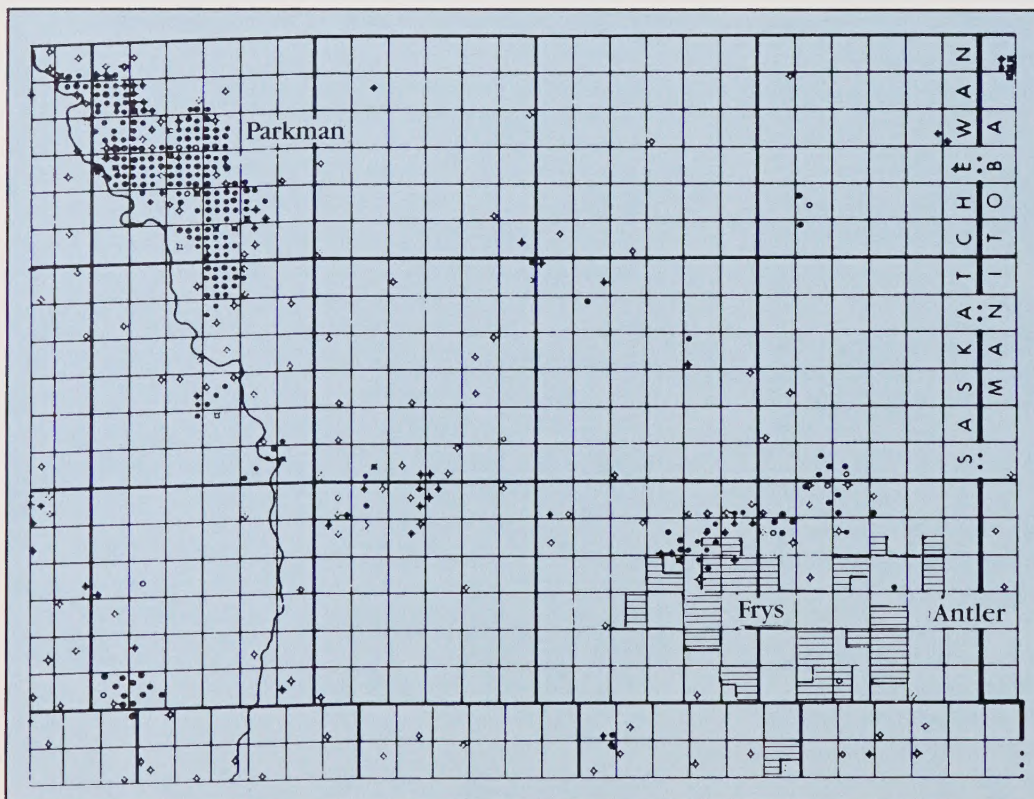
Despite the initial dry hole on Reflection lands, Antler area drilling results are encouraging. Since our involvement in the area, a total of 15 holes have been drilled by other companies (within two miles of our lands). Of these 15 holes, 12 were completed as oil wells.

Diligent geologic subsurface studies and prospect development in favourable areas of Saskatchewan, Alberta, Manitoba and northeastern British Columbia have been maintained. At the same time, proposals from other companies have been solicited and evaluated in relation to Reflection's interests.

Development

Through a 40 percent participation in the purchase of Drilling Reservation D-1552 in the September 11, 1984 Saskatchewan Land Sale, Reflection has doubled its development and Frys field extension land holdings. Reflection's interest has increased to 2,400 acres gross (1,120 net) from 1,200 acres gross (640 net).

In October, Reflection contributed 50 percent of the



Frys-Antler Area

- Interest Acreage
- Location
- Oil Well
- Gas Well
- Suspended
- Service Well
- Abandoned

cost of drilling a development well within the Frys field. The well recovered 120 feet of clean oil on drill stem test and was awaiting production testing at year end.

Prospects for extending the Frys field to the southeast are good and this development work can proceed on a relatively low risk well-by-well basis. Consideration is also being given to increasing production in the Frys area by allowing for development on a 40-acre rather than 80-acre well spacing.

Land Holdings

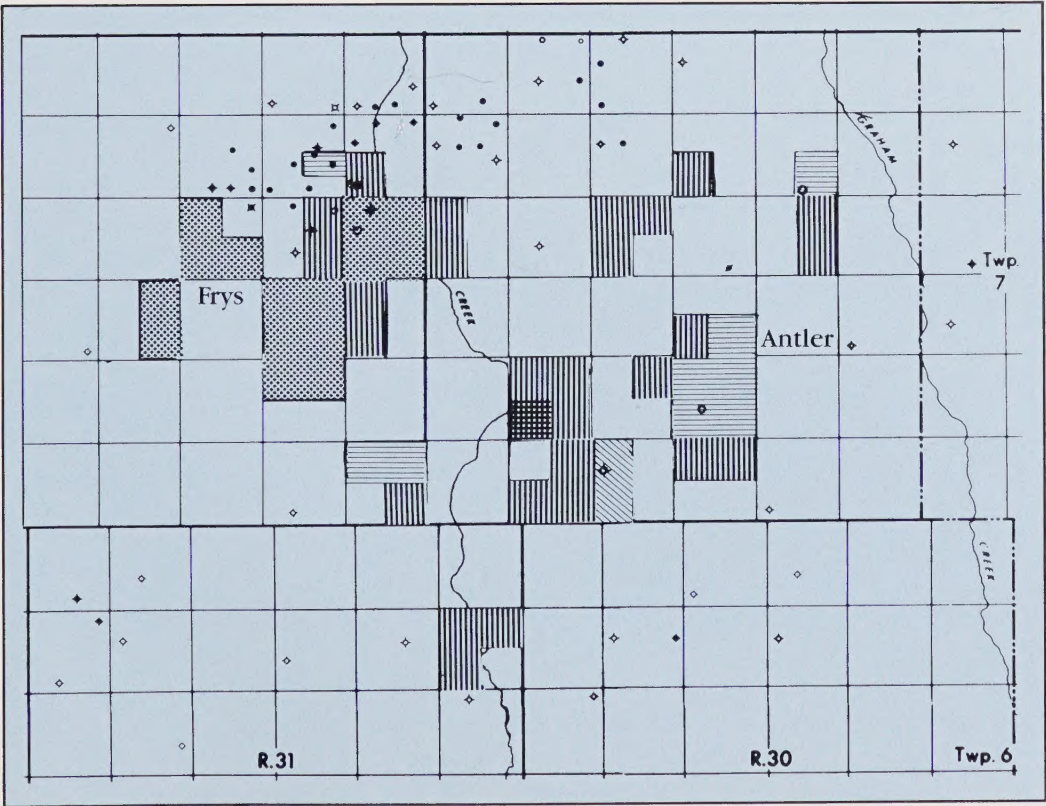
At October 31, 1984, the Company's land position in Alberta, Saskatchewan and Manitoba totalled 10,160 gross acres (5,664 net). This includes the recent addition to the Company's land holdings in the Frys area.

Production

Current production is from two wells in the Windy Tindastoll area of Alberta in which Reflection owns a 3.5 percent gross overriding royalty interest. Production from these two wells totalled 30 barrels per day through most of 1984.



Reflection oil production in the Windy Tindastoll area of Alberta.



Antler Prospect

- Interest Acreage
 - 33%
 - 50%
 - 75%
 - 100%
- Drilling Reservation
- Location
- Oil Well
- Gas Well
- Dry & Abandoned
- Suspended
- Service Well
- Abandoned Oil
- Abandoned Gas

Management's Review of Financial Position

During its first full year of operation, Reflection successfully completed a common share offering which added \$400,000 to the Company's working capital. This allowed the Company to add new lands for exploration and continue to develop exploration plays.

Net loss for 1984 was \$120,528 (\$.043 cents per share). Further reference may be obtained from the Financial Statements which follow this review.

Revenues in 1984 from oil and gas royalties and interest income totalled \$30,416. General and administrative expenses were \$129,213. The Company has no long term debt.

As at October 31, 1984, Reflection showed an increase of working capital of \$132,875 over the beginning of the period. This provided the Company with a total working capital of \$243,214 at year end.

Reflection is currently reviewing producing oil and gas properties for possible purchase by the Company. A purchase is expected, provided acceptable financing can be arranged by the Company.

To keep expenses down until there is an increase in revenue from operations, Reflection will be reducing the Company's overhead as much as possible in the first and second quarters of 1985. This practice will be left in place until cash flow increases or until startup of the 1985 year end drilling financing arrangements are to be carried out. At this time, bridge financing may be put in place.



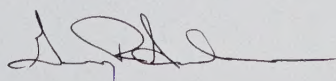
Reflection President Guy Anderson (left) reviews the Company's Antler Prospect with Exploration Manager Lawrence Pashak.

Balance Sheet

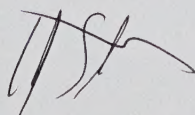
Reflection Resources Ltd.
October 31, 1984

	1984	1983
Assets		
Current Assets		
Cash	\$ 115,315	\$ 5,437
Term deposit	280,620	90,000
Accounts receivable	33,275	18,241
	429,210	113,678
Petroleum and Natural Gas Properties, at cost	743,690	587,000
Less accumulated depletion	11,839	—
	731,851	587,000
Other Asset, at cost		
Deposit	5,550	—
	1,166,611	700,678
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	185,996	3,339
Shareholders' Equity		
Share Capital (Note 2)		
Authorized (Note 2(a))		
Issued, 3,300,000 common shares (1983 - 2,300,000) Note 2(b))	1,110,804	707,000
Deficit	(130,189)	(9,661)
	980,615	697,339
	\$1,166,611	\$700,678

Approved on behalf of the Board:



Director



Director

Statement of Loss and Deficit

Reflection Resources Ltd.

For the Year Ended October 31, 1984

(With figures for the two month period ended October 31, 1983 for comparison)

	1984 (12 months)	1983 (2 months)
Revenue		
Royalties	\$ 11,449	\$ 1,403
Interest	18,967	—
	<hr/> 30,416	<hr/> 1,403
Expenses		
Automobile	3,728	—
Bad debts	3,949	—
Computer charges	2,800	—
Consulting fees	59,453	3,498
Depletion	11,839	—
Interest and bank charges	4,035	—
Office and miscellaneous	9,291	186
Petroleum and gas revenue tax	1,908	—
Printing and drafting	3,477	—
Professional fees	4,374	—
Rent	11,070	644
Secretarial fees	7,540	—
Stock exchange fees	5,775	—
Taxes and licences	1,839	—
Telephone	5,467	153
Transfer agent fees	6,025	—
Travel and promotion	7,669	583
Wages and employee benefits	—	6,000
Workers Compensation Board	705	—
	<hr/> 150,944	<hr/> 11,064
Loss for the Year	120,528	9,661
Deficit, Beginning of the Year	9,661	—
Deficit, End of the Year	<hr/> \$ 130,189	<hr/> \$ 9,661

Statement of Changes in Financial Position

Reflection Resources Ltd.

For the Year Ended October 31, 1984

(With figures for the two month period ended October 31, 1983 for comparison)

	1984 (12 months)	1983 (2 months)
Working Capital Provided		
Issuance of share capital	\$ 600,000	\$ 120,000
Working Capital Applied		
Operations:		
Loss for the year	120,528	9,661
Deduct item not affecting the use of working capital		
Depletion	11,839	—
	108,689	9,661
Acquisition of petroleum and natural gas properties	156,690	—
Deposit	5,550	—
Organization costs	96,196	—
Agent fees	100,000	—
	467,125	9,661
Increase in Working Capital for the Year	132,875	110,339
Working Capital, Beginning of the Year	110,339	—
Working Capital, End of the Year	\$ 243,214	\$ 110,339

Auditors' Report

To the Shareholders

We have examined the balance sheet of Reflection Resources Ltd. as at October 31, 1984 and the statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at October 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Ward Mallett

Chartered Accountants

Calgary, Canada
December 18, 1984

Notes to the Financial Statements

Reflection Resources Ltd.
October 31, 1984

1. Significant Accounting Policies

Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs relating to the exploration and development of petroleum and natural gas reserves are capitalized. Such costs include those related to lease acquisitions, geological and geophysical activities, drilling costs and fees paid for negotiation of drilling arrangements. No gains or losses will be recognized upon the sale or disposition of properties except in circumstances which result in significant dispositions of reserves. Provision for depletion of costs is computed using the unit-of-production method based on estimated proven oil and gas reserves.

2. Share Capital

(a) Shares Authorized

The Company's authorized share capital consists of an unlimited number of common shares, first preferred shares and second preferred shares all without nominal or par value.

The first preferred shares rank in priority to the second preferred shares, and all preferred shares rank in priority to the common shares, as to the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. The preferred shares are non-voting and may also be given such other preferences over the common shares as may be determined for any series authorized to be issued by the Board of Directors.

The common shares are voting, entitled to dividends, and, in the event of liquidation, dissolution or winding-up of the Company, entitled to share pro rata in the net assets of the Company.

(b) The issued share capital at October 31, 1984 is as follows:

	Number of Common Shares	Amount
Issued for cash	600,000	\$ 120,000
Issued in exchange for petroleum and natural gas properties	1,700,000	587,000
Issued at public offering (Note 3)	1,000,000	403,804
	3,300,000	\$1,110,804

(c) Share Reserves

There are 800,000 common shares reserved for the exercise of the Series "A" and Series "B" warrants (Note 3).

3. Shares Issued at Public Offering

(a) The Company sold 1,000,000 units at a price of \$.60 per unit. A unit consists of 1 common share and 1 Series "A" warrant. Two Series "A" warrants entitle the holder thereof to purchase one additional common share at a price of \$.75 if exercised on or before December 4, 1984.

(b) In conjunction with the above public offering, the agent was paid \$100,000. In addition, 300,000 Series "B" warrants were issued to the agent which would entitle the agent to purchase 300,000 common shares if exercised on or before December 4, 1984.

(c) As at December 4, 1984 none of the Series "A" or Series "B" warrants had been exercised.

(d) The Company incurred a total expenditure of \$96,196 relating to the issue of units to the public. These costs were charged against the total proceeds from the issue of units.

4. Related Party Transactions

During the year, the Company incurred organization costs of \$40,465, petroleum and natural gas property costs of \$68,679 and consulting fees of \$64,580 as a result of transactions with companies controlled by directors of the corporation. These transactions were under the same terms and at similar prices as transactions with outsiders.

5. Loss Per Share

	1984 (12 months)	1983 (2 months)
Basic loss per share	\$0.043	\$0.008

6. Income Taxes

The Company has incurred losses for income tax purposes amounting to \$115,000 that are available to be carried forward and applied against future taxable income. No provision has been made in these financial statements to reflect any possible future benefit of these losses.

7. Comparative Figures

The prior period figures presented for comparative purposes were reported on by another firm of chartered accountants. In addition certain of the prior period figures have been reclassified to conform to the current period's financial statement presentation.

Corporate Information

Executive Offices

Reflection Resources Ltd.
1570, 700 Ninth Avenue S.W.
Calgary, Alberta
T2P 3V4

Telephone (403) 266-0266

Board of Directors

Guy R. Anderson
Calgary, Alberta
Lawrence H. Pashak
Calgary, Alberta
Wilda Faye Pashak
Calgary, Alberta
Murray J. Stapleton
Priddis, Alberta

Officers

Guy R. Anderson
President and Chief Executive Officer
Lawrence H. Pashak
Exploration Manager
Murray J. Stapleton
Treasurer and Chief Financial Officer
Darold H. Parken
Secretary

Annual Meeting

The Annual General Meeting of the Shareholders of Reflection Resources Ltd. will be held at 2:00 p.m. on March 15, 1985 in the Western Canadian Place Conference Centre, Room A, Plus 30 Level, 700 Ninth Avenue S.W., Calgary, Alberta.

Transfer Agents and Registrars

The Canada Trust Company at its principal offices in Vancouver, Calgary, Regina and Winnipeg.

Auditors

Ward Mallette
Chartered Accountants
400, 521 Third Avenue S.W.
Calgary, Alberta
T2P 3T3

Bankers

Royal Bank of Canada
2516 Oakmoor Drive S.W.
Calgary, Alberta
T2V 4E6

Legal Counsel

Burnet Duckworth & Palmer
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